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In the Supreme Court of the United States

OCTOBER TERM, 1944

ALMA MOTOR COMPANY, PETITIONER

v.

THE TIMKEN-DETROIT AXLE COMPANY, RESPONDENT
UNITED STATES OF AMERICA, INTERVENOR

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

MEMORANDUM FOR THE UNITED STATES

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OPINIONS BELOW

The opinion of the District Court of the United States for the District of Delaware (R. 33–43) is reported in 47 F. Supp. 582. The opinion of the Circuit Court of Appeals (R. 112–120) is reported in 144 F. (2d) 714.

JURISDICTION

The order of the Circuit Court of Appeals denying a petition to review and vacate Royalty Adjustment Order No. W–3 of the War Department (R. 111–112) was entered on August 7, 1944,

The order of the Circuit Court of Appeals (R. 121) vacating a portion of the District Court's judgment was also entered on August 7, 1944. A petition for rehearing was denied on October 2, 1944 (R. 130). The petition for a writ of certiorari was filed on January 2, 1945. Jurisdiction of this Court is invoked under Section 240 (a) of the Judicial Code, as amended by the Act of February 13, 1925.

QUESTION PRESENTED

Whether the court below properly held that the Royalty Adjustment Act is valid insofar as it was made applicable to petitioner, the Timken-Detroit Axle Company, through the issuance of Royalty Adjustment Order No. W-3 by the War Department on July 28, 1943.

STATUTE AND REGULATIONS INVOLVED

The Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, 89-96) known as the Royalty Adjustment Act, is set forth in the Appendix, *infra*, pp. 7-12.

STATEMENT

This action was originally brought on January 23, 1941, in the District Court for the District of Delaware under the Federal Declaratory Judgments Act by respondent, the Timken-Detroit Axle Company, a licensee under a patent, against the petitioner, Alma Motor Company, its licensor, to declare the underlying patent invalid and the

license agreement inapplicable to certain transfer cases manufactured by respondent (R. 2–9). Petitioner counterclaimed, asking judgment for damages for respondent's failure to pay royalties under the license agreement (R. 9–13). On December 2, 1942, the District Court entered a judgment holding that the respondent was estopped to question the patent's validity (R. 36), and that certain of the transfer cases manufactured by respondent were within the scope of the license agreement and thus subject to royalties (Pars. 3, 4, R. 49–50). Paragraph 5 of the judgment held that certain other transfer cases manufactured by respondent were outside the scope of the license agreement and hence not subject to royalties (R. 50).

On February 27, 1943, petitioner appealed to the Circuit Court of Appeals for the Third Circuit from paragraph 5 of the judgment (R. 51). Respondent did not appeal from paragraph 4 of the judgment.

On July 28, 1943, while the appeal was pending in the court below, the War Department issued Royalty Adjustment Order W–3 pursuant to the authority of the Royalty Adjustment Act of October 31, 1942.[1] That order (R. 93–96) recited

[1] The critical provisions of the Royalty Adjustment Act were recently summarized by this Court in *Coffman v. Breeze Corporations, Inc.*, No. 71, present Term, decided January 2, 1945. See p. 3 of the slip-sheet opinion.

that royalties payable by respondent under its license agreement with petitioner are "directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the United States" of the invention covered by the patent, and that such royalties are "believed to be unreasonable or excessive." The order then directed respondent (1) to pay no such royalties whatever to petitioner under the license agreement; (2) to reduce the contract price on transfer cases to any contractor or subcontractor of the United States whose manufacture embodies the use of such devices, in order to reflect the royalty reduction; and (3) to return to the United States any such royalties collected by respondent but as yet unpaid to petitioner.

Respondent then moved to dismiss the appeal on the ground that there was no longer a justiciable controversy since Section 2 of the Royalty Adjustment Act provided that the sole remedy of the licensor (petitioner), if he is aggrieved by the issuance of an order thereunder, shall be an action under Section 2 of the Act against the United States to recover fair and just compensation (R. 53–55). Taking as correct the averment in respondent's supporting affidavit that all of the transfer cases in suit had "been manufactured and sold directly or indirectly to the United States" (R. 60), and that the royalties due upon such

cases were "directly or indirectly charged or chargeable to the United States" (see Section 7 of the Act), the United States filed a brief as *amicus curiae* with leave of court (R. 98), suggesting that, in view of the issuance of Royalty Adjustment Order No. W–3, the court should either dismiss the appeal or suspend action thereon until an actual controversy should exist between the parties.

Petitioner thereupon filed a petition "To Review and Vacate Royalty Adjustment Order No. W–3 of the War Department" on the ground that it and the underlying act were invalid (R. 98–103). Upon certification by the court below that the constitutionality of an Act of Congress had been challenged, the United States intervened under the Act of August 24, 1937 (28 U. S. C. 401) for the purpose of supporting the constitutionality of the Act and order (R. 110, 113). The court considered the question of constitutionality, since the Act, if valid, constituted a defense to appellant's claim separate from the defense sustained by the district court. (R. 113.) Cf. *Coffman* v. *Breeze Corporations, Inc.*, No. 71, present Term, p. 5; *Coffman* v. *Federal Laboratories, Inc.*, No. 485, present Term, p. 2.

On August 7, 1944, the court below rendered its decision holding the Royalty Adjustment Act and order valid, and issued an order directing the following disposition of the case (R. 120):

> Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot.

On October 2, 1944, the court below entered an order denying a petition for rehearing (R. 130).

DISCUSSION

This case presents a question of considerable importance: the constitutionality of the Royalty Adjustment Act of 1942. That Act is a wartime measure, intended to provide for the full utilization by Government agencies and its contractors of all inventions deemed essential to the war program, without the entailment of excessive or exorbitant procurement costs. Since definitive determination of the question presented has a distinct bearing upon the achievement of this objective, we do not oppose the issuance of a writ of certiorari in this case.

CHARLES FAHY,
Solicitor General.

JANUARY 1945.

APPENDIX

The Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, 89–96) reads as follows:

> *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however,* That the licensee or licensor, if he

so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to

recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price

to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

SEC. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any power and authority conferred by this Act to such qualified and responsible officers, boards, agents, or persons as he may designate or appoint.

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act shall also apply to all royalties charged or

chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of settling, sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (1) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of the date of such agreement, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

SEC. 9. Nothing herein contained shall be deemed to preclude the applicability of Sec-

tion 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be applicable.

SEC. 10. If any provision of this Act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act shall not be affected thereby.

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